

Geographic variation in Medicare spending

ISSUE: Geographic variation in Medicare spending continues to bedevil political discussion of the program. Recently, we have been asked by Congressional staff for background analysis of the subject. The Commission may want to make geographical variation part of our study program going forward so that we can better respond to Congressional questions and understand the issue.

KEY POINTS: Much controversy surrounds the issue of geographic variation in Medicare spending. In particular, some data point to major differences among states, in some cases even among similarly situated states. We have done some state level analysis and found:

- The data presented in the Green Book on *Medicare estimated benefit payments, enrollment, and payments per enrollee, by jurisdiction* and frequently cited in debate about the equity of the program are misleading if one is concerned with resource use per beneficiary. These data are the sum of spending sent to providers in a state divided by the number of beneficiaries in the state. These data do not account for services in-state beneficiaries received out of state, or for beneficiaries from other states using services within the state.
- Correcting for in and out of state service use reduces the variance and the perceived inequity of the program.
- Measuring service use by beneficiary, after removing special payments and geographic payment adjustments, and adjusting for health status presents a much different picture showing some high payment states not to have high use and some low payment states to have average use.

Analysis of variation in fee-for-service spending is also essential if, as we have recommended, Medicare+Choice payment rates are made equal to 100 percent of fee-for-service spending adjusted for health status. Another question of interest is what geographic area is most meaningful for analysis—state, county, hospital market, some other—or whether the best area depends on the question being asked.

ACTION: Commissioners should provide guidance to staff on what additional analysis of geographic variation in payments and service use they would like to see.

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